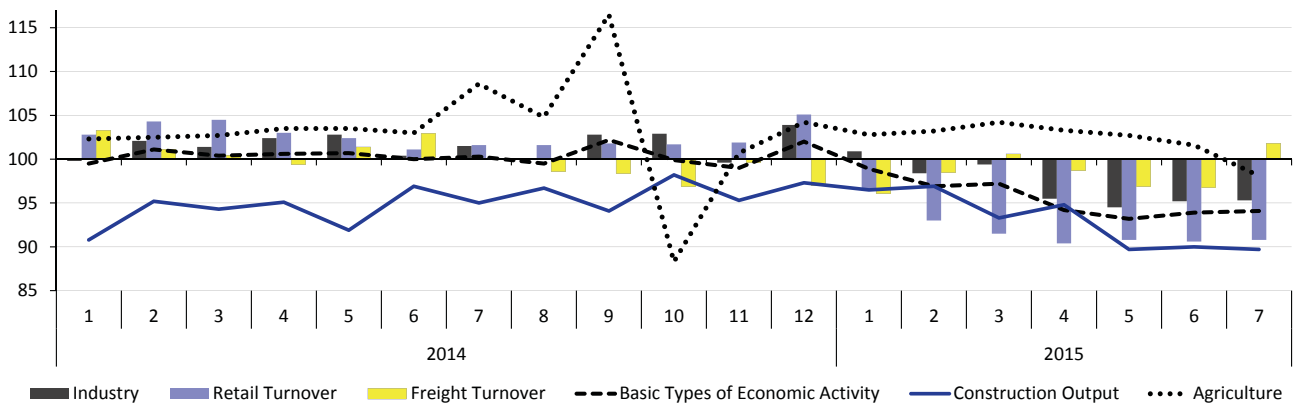


THE REAL SECTOR OF THE RUSSIAN ECONOMY: FACTORS AND TRENDS IN JULY 2015

O.Izryadnova

This year, Russia's domestic market was operating under the negative effects of shrinking domestic demand. In July 2015, the retail trade turnover index amounted to 90.8%; the index of paid services delivered to the population – to 97.5%; and the index of investment in fixed assets – to 91.5% in annual terms. Over the same month, output in the processing industries dropped to 92.9% on July 2014. The growth rates in the processing industries were negatively influenced by the shrinking output of capital goods.



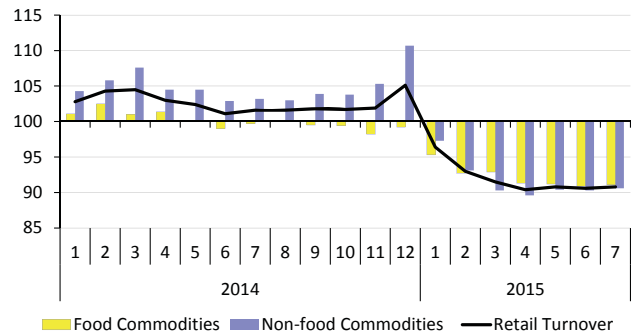
Source: Rosstat.

Fig. 1. The Monthly Movement of the Physical Volume of Output, by Basic Type of Economic Activity, in 2014-2015, as % of the Same Period of the Previous Year

In July 2015, the situation on Russia's domestic market was strongly influenced by the negative trends in aggregate demand.

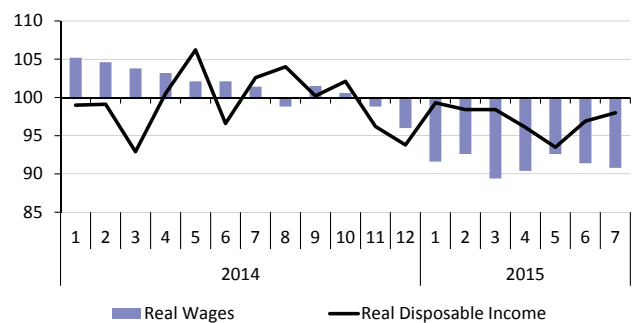
This year, the declining business activity in the investment-and-construction complex observed over the last two years was supplemented by two more negative factors – shrinking consumer demand and plummeting industrial production. In July 2015, the Index of Investment in Fixed Assets amounted to 91.5% in annual terms, the production volume in construction – to 89.7%. The situation in the investment-and-construction complex was aggravated by the high cost of credit resources, the steady rise in prices for capital machinery and equipment, and the weakening demand in the real estate market. In May 2015, the rate of new housing being put in operation become stabilized at the previous year's level, and then in June–July this index dropped by 6.3% on the same period of last year.

This year, the gradual decline demonstrated by the growth rate of the consumer market since 2014 gave way, in July 2015, to a 9.2% drop in retail turnover and a 2.5% drop in the provision of paid services to the population in annual terms. Consumer behavior was heavily influenced by the uncertainty of the economic situation and high inflation risks, which also produced a heavy impact on the structure and volume of personal con-



Source: Rosstat.

Fig. 2. The Movement of Retail Turnover Indices in 2014-2015, as % of the Same Period of Previous Year



Source: Rosstat.

Fig. 3. The Movement of the Population's Real Incomes in 2014-2015, as % of the Same Period of Previous Year

sumption expenditures. In July 2015, the retail turnover of the food commodities market and the non-food commodities market dropped respectively by 8.9% and 9.4% in annual terms. Evidently, the situation on the consumer market was determined to a considerable degree by the high inflation rate. In July 2015, food prices grew by 10.5% on December 2014, and 19.8% on July 2014, while the prices of clothes increased respectively by 6.8% and 11.2%, those of household appliances and necessities – by 10.3% and 26.1% respectively, and those of pharmaceuticals – by 16.0% and 22.9% respectively. When the regulated tariffs were raised in July, the housing and utilities costs climbed 8.8% on December 2014 and 14.0% on July 2014.

The shrinkage of consumer demand was determined by the decline in the population's real incomes and the ongoing growth in the household debt service burden, as well as by the fact that a very significant proportion of ruble-denominated incomes continued to be converted into foreign exchange. In July 2015, the population's real wages and real disposable income amounted to 90.8% and 98.0% of their 2014 levels in annual terms.

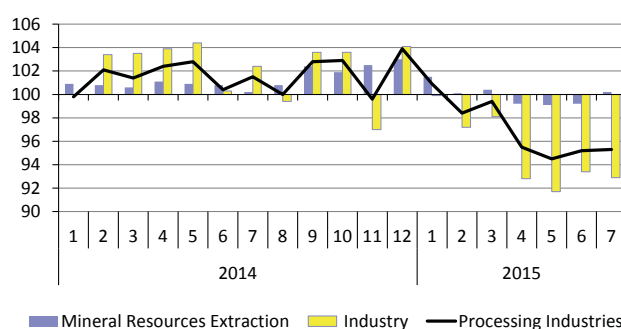
Since the beginning of 2015, the situation in Russia's domestic market has been further aggravated by the ongoing slump in industrial manufacturing. In July 2015, the Industrial Production Index amounted to 95.3% in annual terms. In the mineral resources extraction sector, the decline observed over the period from April to June gave way, in July 2015, to a growth of 100.2% in annual terms.

The oil extraction volume over January–July 2015 increased by 1.4% on the same period of 2014. Oil exports over the period of January–July 2015 rose by 6.6% on the same period of last year *vis-a-vis* declining domestic consumption. The share of refined oil in the total volume of oil production over January–July 2015 shrank by 1.6 pp. on the same period of 2014 – to 54.3%.

The production rate of natural gas was determined by the shrinking demand on the domestic and foreign markets, and so it amounted to 94.7% compared to the period January–July 2014. The consumption of natural gas in the domestic market over January–July 2015 dropped by 2.4%, and its exports – by 10.9% on 2014.

Output in Russia's processing industries had been on the decline since the year's beginning. In July 2015, the Manufacturing Output Index amounted to 92.9% in annual terms vs. 102.4% in annual terms in July 2014.

The behavior of Russia's processing industries was heavily differentiated by type of economic activity. Capital goods production was hard hit by low investment demand. In July 2015, the Machinery and Equipment Index and the Electric, Electronic and Optical Equipment Index amounted respectively to 87.2% and 88.9% of their previous July's levels.



Source: Rosstat.

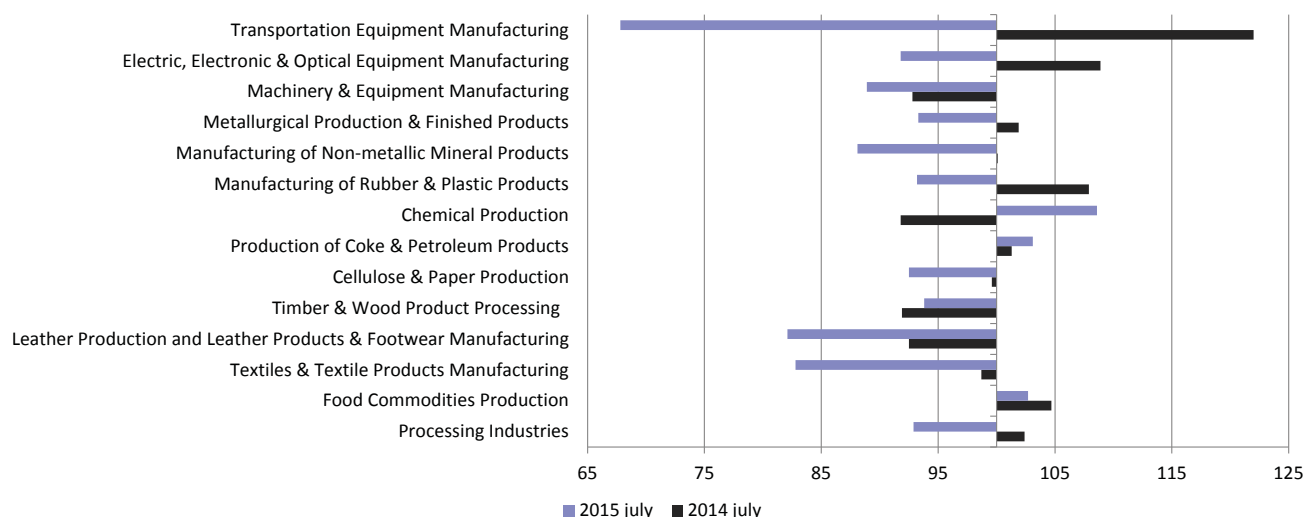
Fig. 4. The Movement of Industrial Production Indices, by Type of Economic Activity, in 2014-2015, as % of the Same Period of Previous Year

In July 2015, transportation equipment manufacturing dropped by 32.2% on July 2014, while in January–July 2015 it shrank by 18.9% on the same period of last year. Meanwhile, the output of passenger cars and trucks in annual terms amounted respectively to 63.4% and 87.8% of last July's levels. It should be noted that the slump in motor vehicles manufacturing was determined to a considerable degree by the weakening demand for such goods. During July 2015, sales of passenger cars and light commercial passenger carriers dropped by 27.5% in annual terms (over January–July – by nearly 1/3).

The intermediate commodities segment witnessed an increase in petroleum products manufacturing and in chemical production, which climbed to 103.1% and 108.6% in annual terms. It should be noted that, as far as chemical production is concerned, the positive dynamics can be attributed to an increase in the output of agrochemical products (129.9%) and in the output of pharmaceutical products (125.1%).

Over the period under consideration, Russia's consumer goods manufacturing industry displayed multi-vector trends, reflecting the specificity of its branches. In July 2015, textiles and textile products manufacturing dropped to 82.8% of last July's level, while leather production and leather products and footwear manufacturing declined to 82.1% of last year's level. At the same time, in July 2015, the growth rate of food commodities production increased to 102.7% vs. 104.7% a year earlier.

This year, in spite of the shrinking output indices by basic type of economic activity, the financial result achieved by enterprises and organizations (balance of profits and losses) amounted to Rb 5,268.8bn, or 142.6% compared to the corresponding index for the 1st half-year of 2014, which can be explained by the accelerated growth rate of producer prices. The Producer Price Index in industry for the period of January–June 2015 amounted to 113.1%; that in the mineral extraction sector – to 126.5%; that in the processing industries – to 109.9%; that in the production



Source: Rosstat.

Fig. 5. The Movement of Production Indices, by Major Type of Processing Industries, in July 2014 and July 2015, as % of the Same Months of Previous Year

Table 1

THE FINANCIAL RESULT (BALANCE OF PROFITS AND LOSSES) AND THE RATE OF RETURN ACHIEVED BY ENTERPRISES AND ORGANIZATIONS, BY TYPE OF ECONOMIC ACTIVITY, IN THE FIRST HALF-YEAR (2013–2015)

	Financial result, as % of same period of previous year			Return on sold goods, work, services, as %		
	1st half-year of 2013	1st half-year of 2014	1st half-year of 2015	1st half-year of 2013	1st half-year of 2014	1st half-year of 2015
Total	77.1	116.3	142.6	7.7	8.9	10.1
including: agriculture, hunting and forestry	61.3	192.1	180	6.3	15.8	22.6
fishing, fishery	68.7	186.0	240.0	20.8	32.9	67.4
mineral resources extraction	92.4	123.8	114.8	26.8	27.6	31.0
including: extraction of fuel energy resources	95.2	124.8	113.8	25.7	26.0	28.9
processing industries	71.5	123.9	200.0	9.1	9.4	13.1
production and distribution of electric energy, gas and water	89.1	128.1	100.8	5.3	5.8	6.0
construction	49.1	91.1	157.6	2.7	2.0	2.7
wholesale and retail trade; repair of motor cars, motor-cycles, household appliances and necessities	73.3	104.8	133.2	6.9	8.7	8.0
transport and communications	83.0	88.9	151.0	10.9	9.6	11.2
including: railway transport operations	33.4	43.6	390.0	3.4	3.2	6.3
pipeline transport operations	85.5	107.9	167.3	15.9	15.1	19.2
communications	108.4	92.8	90.2	29.3	26.0	22.6
financial operations	24.1	151.6	73.2	0.2	0.8	0.3

Source: Rosstat.

and distribution of electric energy, gas and water – to 97.4%; and that in construction – to 104.2%. Thus, given the existing situation with regard to pricing, enterprises indeed possess some financial potential for increasing their output, if the domestic market's behavior should change to the better.

Since the beginning of 2015, the demand for workforce has been displaying an increasingly downward trend. In July 2015, the number of unemployed (as estimated by the ILO methodology) grew on the same period of 2014 by 7.9%, to 4.1m (or 5.3% of the economically active population); 1.0 million persons were regis-

tered as unemployed at the local bodies of the Federal Service for Labor and Employment, which amounted to 1.3% of the economically active population.

As demonstrated by the IEP model calculations, by late 2015 the total number of unemployed may increase to 4.5m, if industrial manufacturing should shrink by 3.7%, and investment in fixed assets – by 7.6% on the corresponding indices for 2014¹.

1 Model Calculations of Short-Term Forecasts of Social and Economic Indices of the Russian Federation // Gaidar Institute Newsletter.ru, No 7 (89).